

***CHINESE INVOLVEMENT IN
AFRICAN ILLEGAL LOGGING AND TIMBER TRADE***

**Testimony of Allan Thornton
President, Environmental Investigation Agency**

**US House of Representatives
Committee on International Relations
Subcommittee on Africa, Global Human Rights and International Operations
July 28, 2005**

Mr. Chairman and Distinguished Members of the Subcommittee on Africa, Global Human Rights and International Operations:

I would like to thank Chairman Smith for the opportunity to address this committee on such an important matter. China's global political and economic influence has grown dramatically in the past decade. The massive increases in China's consumption of natural resources generally, and forest products in particular, underline this global trend of voracious demand.

My organization, the Environmental Investigation Agency (EIA), is a nonprofit, non-governmental organization that investigates and exposes environmental crimes and promotes practical solutions to remedy such issues. Our work is focused on illegal logging and the international trade in illegal logs, timber and wood products; the illegal trade in wildlife; and the illegal trade in ozone-depleting substances. Today I will primarily address illegal logging and timber trade as it applies to China's growing consumption of forestry resources and China's imports of illegally-produced logs and timber from Africa.

EIA has investigated illegal logging for the past 10 years providing detailed evidence to governments, enforcement authorities, NGO's and the media all over the world. We are a leading source of evidence and documentation in the areas we address. We have worked cooperatively with the Department of Justice and its environmental crimes unit, the State Department, the Fish and Wildlife Service and its law enforcement division, the office of the United States Trade Representative, and the Environmental Protection Agency.

EIA has undertaken extensive work with governments and enforcement personnel in Africa, Europe and Asia. We have developed constructive relationships with the Chinese authorities over the past thirteen years on issues ranging from smuggling of rhino horn, elephant ivory, ozone-depleting substances to the illegal timber trade. Chinese customs use EIA video to train agents on how to detect illegal trade in CFC's and EIA intelligence has prompted several seizures of poached elephant ivory by the Chinese authorities.¹

¹ China has emerged as the main destination for illicit African ivory. Ivory products are widely available in China and EIA investigations into the country's ivory retail market reveal a total absence of meaningful control. In April 2002, the Chinese authorities smashed a smuggling ring responsible for bringing 14 metric tons of illegal ivory into the country. 2002 also saw the world's largest seizure of ivory in Singapore, lifting the lid on a well-organized ivory smuggling network that had been operating undetected since the mid 1990's. This network had successfully shipped huge amounts of ivory from southern Africa to China and Japan. If China fails to stem its demand for illegal ivory, elephant populations in many range states are doomed. "*Back in Business*," Environmental Investigation Agency Oct. 2002.

China's failure to take meaningful action against illegal logging and timber imports, failure to meet existing commitments or even to adopt meaningful policies is alarming. China's continuing spectacular increase in imports of logs and timber, much of it illegal in origin, to either manufacture for re-export to the United States and other countries or for its domestic use and the large scale Olympics building program underway is, in effect, fuelling a crisis that the United States and other G8 nations have given increasing priority, including in the Gleneagles Summit in the UK last month when commitments were made to end imports of illegally logged products.

China's role in Africa's illegal logging crisis is predatory in nature and poses a threat to forests, the communities that rely on them and weak governments susceptible to corruption.

Illegal Logging Overview

Illegal logging² is a global problem of staggering scale and, based on EIA's experience, it only appears to be proliferating. Illegally-harvested logs likely account for more than half of all logging in vulnerable regions such as Central Africa, Southeast Asia and Latin America as well as roughly 10% of the global timber trade.³ Illegal logging fosters corruption, degrades the environment and destroys the social fabric of some of the world's poorest countries and peoples. Cheap illegal timber in the marketplace also unfairly competes with the United States timber industry. The American Forest & Paper Association recently estimated that illegal logging costs the United States roughly \$1 billion every year in lost export value and devalued domestic sales.⁴

The destruction wrought by illegal logging and its associated trade has received increasing attention at all political levels. As examples, the Group of Eight Industrialized Nations committed to a range of actions to combat illegal logging earlier this month in Scotland; President Bush launched his President's Initiative Against Illegal Logging in July of 2003; and several regional political processes are currently underway in various parts of the world designed to strengthen Forest Law Enforcement and Governance (FLEG), including the African FLEG process.

China's Imports of Illegal Wood

China is the largest importer of forest products in the world and its imports of forest products have tripled in less than a decade.^{5,6} In 1998, China placed stringent restrictions on domestic logging, forcing the country to import a high percentage of its total wood consumption. Since then, China

² Illegal logging occurs when timber is harvested, transported, bought or sold in contravention of national or international laws. Illegalities can span the entire supply chain from source to consumer. The harvesting procedure itself may be illegal through cutting within protected areas, extraction of timber in excess of permitted limits, under-reporting the amount cut, harvesting without permission, or taking of protected species. Illegalities can occur later in the supply chain as well, including: illegal transporting or smuggling, illegal processing, false reporting of species harvested, using false or forged shipping or customs documentation, employing illegal accounting practices and/or false reporting of harvest to evade fees and taxes, and the illegal export and sale.

³ Illegal-Logging.info briefings page, *The scale of the problem*, Royal Institute of International Affairs, <http://www.illegal-logging.info/> Last visited July 26, 2005.

⁴ Seneca Creek Associates, LLC and Wood Resources International, LLC, *"Illegal" Logging and Global Wood Markets*, prepared for AF&PA, Nov. 2004, p ES-4.

⁵ Sun, Katsigris and White, *Meeting China's demand for forest products: an overview of import trends, ports of entry, and supplying countries, with an emphasis on the Asia-Pacific region*, Forest Trends, January 2004.

⁶ Forest Trends, *China's Forest Product Exports: overview of trends by segment and destinations*, 2005 (prepublication draft).

climbed six spots to become the top forest products importer, taking in 120 million cubic meters in 2004.⁷ China is now the top importer of round logs and, in 2003, China's consumption of other wood products ranked second for industrial roundwood, second for wood-based panels, pulp, paper and paper boards, and fifth for sawnwood.⁸ China depends on imports for over 40% of its total forest products consumption.⁹

China is undoubtedly importing significant quantities of illegal timber. As the American Forest & Paper Association describes in a recent report on illegal logging, **"China's sources for hardwood log imports reads like a 'Who's Who' of countries with problems with illegal logging."**¹⁰ The report goes on to describe that the general response from Chinese importers when asked about illegal wood in their supply chain was that of indifference.¹¹ Following a customs data analysis, Forest Trends concludes that "trade statistics and reports on forest production and trade from exporting countries suggest that China is one of the major destinations for timber that is harvested unsustainably or illegally."¹² Considering China's current economic expansion, this trend may continue for years to come unless action is taken. Unfortunately, China has done very little to curb its rapacious demand for illegal forest products.

China's Failure to Act Against the Trade in Illegal Timber

The Environmental Investigation Agency has observed first-hand China's refusal to address its imports of illegal timber. In February 2005, EIA and the Indonesian organization Telapak released a groundbreaking report entitled, *"The Last Frontier: Illegal Logging in Papua and China's Massive Timber Theft,"* along with a video exposé. Resulting from two years of undercover investigations in Indonesia's Papua province and China, the report and video revealed, in vivid detail, a billion-dollar-a-year timber smuggling operation originating in the Asia-Pacific region's last substantial tracts of undisturbed tropical forest.

In response to the exposé, Indonesia's president and cabinet ordered a major crackdown on the massive illegal felling and smuggling of merbau – a valuable hardwood – from Papua to China. The Indonesian effort represents the largest crackdown on illegal logging in history, although EIA remains concerned that key timber elite were untouched by the effort.

China, on the other hand, has done nothing in response to the evidence included in *The Last Frontier*. Several Chinese government officials have stated that the government will investigate, but thus far their words have not been matched with action. In addition to broadly sharing the findings of the report, EIA has provided the relevant government agencies with information about the illegal and widespread use of false Certificates of Origin disguising Indonesian shipments as Malaysian. EIA has even provided detailed information about specific suspect shipments. Despite overwhelming evidence and Indonesian requests for assistance, China has failed to respond.

⁷ *Ibid.*

⁸ Sun, Wang and Gu, *A Brief Overview of China's Timber Market*, Forest Trends, January 2005.

⁹ National Timber Distribution Association, *China Timber Information*, Issue 4, 2004.

¹⁰ Seneca Creek Associates, LLC & Wood Resources International, LLC, *"Illegal" Logging and Global Wood Markets*, prepared for AF&PA, 2004, p 125.

¹¹ *Ibid.*, p 139.

¹² Sun, Xiufang et al., *China's Forest Product Import Trends 1997-2002: analysis of customs data with emphasis on Asia-Pacific supplying countries*, Forest Trends, January 2004.

Chinese lack of action against illegal timber imports is not new. Following the 2001 seizure of two Chinese-owned vessels carrying large amounts of illegal logs, China initiated a bilateral agreement with the government of Indonesia to eliminate illegal logging and timber trade. Three and one-half years later, China has undertaken no action to enact the commitments made in this Memorandum of Understanding (MOU) with Indonesia.

This refusal to staunch the flow of illicit timber from Indonesia is illustrative of China's failure to address illegal timber entering its borders from all over the world, including Africa. Chinese government officials have repeatedly stated that illegal logging is a problem that should be dealt with by the producer country rather than by Chinese action. In addition, China's participation in the international political processes designed to strengthen forest law enforcement and governance has been grudging at best.

China's Predatory Timber Trade from Africa

China's political and economic influence has been steadily increasing across Africa in recent decades, especially in nations rich in natural resources. From platinum in Zimbabwe¹³ to oil in Sudan,¹⁴ China has been partnering and investing in countries with minimal human rights standards to gain access to their abundant supply of resources. This trend extends to forest products.

The major timber exporting African states lie in the Congo River Basin and Ivory Coast regions of west/central Africa. In 2003-2004, these nations exported slightly less than a quarter of their total log harvest.¹⁵ Due to colonial ties and geographic proximity, log exports from the region have historically gone to Europe, but China has increased its market share substantially in just the last five years. From 1998 to 2003, Chinese log imports have increased from 25% to 42% of all log exports from this region.¹⁶ China's plywood industry is "totally dependent" on imported wood for plywood face veneers (e.g. okoume from West Africa),¹⁷ and the country buys 22.5% of its hardwood log imports from Africa.¹⁸ However, African exports make up a negligible part of Chinese sawn timber and plywood imports.¹⁹

China demands materials in their rawest form. China eliminated import tariffs on logs and sawn timber,²⁰ contributing to China's successful and dramatic increase in raw log imports.²¹ This increase was despite many African nations' attempts to promote domestic value-added production in their timber sectors.²² While, in aggregate, logs and lumber accounted for roughly 85% of the value of wood product exports from West/Central Africa in 2002, they accounted for an even higher

¹³ Wines, Michael, *From Shoes to Aircraft to Investment, Zimbabwe Pursues a Made-in-China Future*, New York Times, July 24, 2005.

¹⁴ Rone, Jemera, *Sudan, Oil and Human Rights*, Human Rights Watch, 2003.

¹⁵ International Tropical Timber Organization, *Annual Review and Assessment of the World Timber Situation 2004*, December 2004, document GI-7/04.

¹⁶ Seneca Creek Associates, LLC and Wood Resources International, LLC, *"Illegal" Logging and Global Wood Markets*, prepared for AF&PA, Nov. 2004 pp. 91-92.

¹⁷ *Ibid*, p. 131.

¹⁸ *Ibid*, p. 133.

¹⁹ *Ibid*, p. 94.

²⁰ China Daily, *Import Tariffs on Wood Products to Be Cut*, February 19, 2002.

²¹ Chunquan, Taylor and Guoqiang, *China's Wood Market, Trade and the Environment*, WWF International, Science Press USA, Inc. 2004.

²² International Tropical Timber Organization, *Annual Review and Assessment of the World Timber Situation 2004*, December 2004, document GI-7/04, pp 15, 18 and 44.

percentage to China.²³ By demanding raw logs and timber, China is stripping the natural resources from this region at the absolute lowest cost. Africa is not benefiting from the jobs and higher prices that can be achieved from value-added processing.

Illegal Logging in Africa

Illegal logging is rife throughout Africa. Estimates of the illegal timber harvest for specific countries in the region hover at 50-60%.²⁴ AF&PA conservatively estimates that 30% of production in west/central Africa is conducted illegally, “however... because of the degree of uncertainty surrounding data on timber production in this region, it is quite possible that the percentage of illegal logging could be higher than 30%.”²⁵

African governments lose millions of dollars in revenue every year due to illegal logging and poor regulation of production. The World Bank estimated in 2002 that the illegal timber trade costs Cameroon \$5.3 million, Congo Brazzaville \$4.2 million, Gabon \$10.1 million and Ghana \$37.5 million every year.²⁶ This is revenue that could be used to improve infrastructure, health care and education systems in some of the poorest countries on earth.

China is now **Gabon**’s largest trading partner.²⁷ In 2003 Gabon supplied 40% of China’s log imports from the west/central African region,²⁸ and China imported 46% of Gabon’s total forest exports.²⁹ Gabonese law requires processing before export, yet China’s demands are for raw logs. China’s influence in the sector encourages “flagrant disregard for the law,” and taxes are not paid on 60% of the area allocated as forest concessions.³⁰ National law states that failure to gain Ministry approval of a management plan for a forest concession within three years triggers forfeiture of the concession, yet only five of the more than 200 companies (representing 30% of concessions) in 2000 had even stated their intent to start writing a plan. Additionally, all five of these companies had already logged their concessions for more than three years.³¹ The illegal timber exports to China have been estimated to be as high as 70% of total timber exports.³²

China is a major market for logs from **Equatorial Guinea**, another country with significant illegal logging problems.³³ One company, Rimbunan Hijau’s subsidiary Shimmer International, has close ties with the Minister of Forests and, along with its many subsidiaries and associated companies, is

²³ Seneca Creek Associates, LLC and Wood Resources International, LLC, “*Illegal*” *Logging and Global Wood Markets*, prepared for AF&PA, Nov. 2004, p. 94.

²⁴ *Ibid*, p. 96 (citing groups such as WWF, Friends of the Earth and Global Forest Watch).

²⁵ *Ibid*, p. 96.

²⁶ World Bank/WWF Alliance, *Forest Law Assessment in Selected African Countries*, SGS Trade Assurance Services, October 30, 2002.

²⁷ International Tropical Timber Organization, *Annual Review and Assessment of the World Timber Situation 2004*, December 2004, document GI-7/04.

²⁸ Seneca Creek Associates, LLC and Wood Resources International, LLC, “*Illegal*” *Logging and Global Wood Markets*, prepared for AF&PA, Nov. 2004, p. 133.

²⁹ Toyne, O’Brien and Nelson, *The Timber Footprint of the G8 and China: making the case for green procurement by government*, WWF International, June 2002, p. 31.

³⁰ Global Timber, *China: Illegal Imports and Exports*, compiled by James Hewitt, July 2002.

³¹ Global Forest Watch, *A First Look at Logging in Gabon*, World Resources Institute, 2000 (as reported by Ed Matthew in *Briefing: European league table of imports of illegal tropical timber*, Friends of the Earth, August 2001).

³² Global Timber, *China: Illegal Imports and Exports*, compiled by James Hewitt, July 2002.

³³ Seneca Creek Associates, LLC and Wood Resources International, LLC, “*Illegal*” *Logging and Global Wood Markets*, prepared for AF&PA, Nov. 2004, p. 92.

the dominant player in the logging sector.³⁴ Maximum allowable cut and concession sizes are largely ignored, and it is estimated that up to 90% of the total harvest going to China is illegal.³⁵

Mozambique instituted a system of ‘Simple License’ forest concessions to support local businesses. The simple licenses are restricted to Mozambicans and are for a limited amount of timber. This system is being abused by Chinese middle-men who hire the local license holders to cut the timber and then funnel it through informal ports along the coast. This timber is then transferred to Chinese ‘motherships’ offshore. Local informants comment that ‘the town is crawling with Chinese timber men,’ particularly in the northern provinces of Cabo Delgado, Nampula and Zambezia.

The Centre pour Environnement et Developpement estimates that at least 50% of logging is illegal in **Cameroon**.³⁶ Friends of the Earth estimates that 96% of logging violations in Cameroon in 1992-1993 were followed by incomplete judicial procedures, and one in five cases in this time period were dropped after intervention by an “influential person.”³⁷ Hong Kong-owned Vicwood Pacific Ltd. acquired the Cameroon subsidiaries of Thanry Group in 1997. As of 2002, Thanry was one of the principle loggers and international timber traders in the Congo River Basin and had established itself as a major violator of forestry laws and a creator of regional social unrest. Between 2000 and 2002, Thanry was fined over \$1.3 million for what has been called ‘anarchic logging,’ including cutting undersized trees, logging outside legal boundaries, and logging in unallocated concessions.³⁸ The World Bank also discovered that the origin of many of Thanry’s logs had been falsified so as to avoid Cameroon’s export controls.³⁹

China and African Conflict Timber

In recent decades, conflict timber⁴⁰ has been identified as a major problem in several African nations, and China seems to have few reservations about buying forest products whose sale promotes war and human rights’ violations. Although much illegal logging in Africa could be considered conflict timber, the examples of Liberia and the Democratic Republic of the Congo strikingly exemplify the problem.

Rebel leader turned President Charles Taylor relied heavily on timber resources to support his own military efforts and to fund mercenaries in neighboring Sierra Leone and Cote d’Ivoire. Taylor gave Liberian timber companies, most importantly Oriental Timber Company (OTC), unrestricted access to the nation’s forests. This included allowing OTC to set up its own militia that has been accused of intimidation and harassment of local communities.⁴¹ Taylor used the revenue gained from the sale of the timber to buy arms for troops, support foreign mercenaries, create enormous

³⁴ Greenpeace, *The Untouchables: Rimbunan Hijau’s world of forest crime & political patronage*, January 2004, p 11.

³⁵ Global Timber, *China: Illegal Imports and Exports, Equatorial Guinea*, compiled by James Hewitt, July 2002.

³⁶ Centre pour Environnement et Developpement, *Inside Cameroon* (as reported by Ed Matthew in *Briefing: European league table of imports of illegal tropical timber*, Friends of the Earth, August 2001).

³⁷ Matthew, Ed, *Briefing: European league table of imports of illegal tropical timber*, Friends of the Earth, August 2001.

³⁸ Greenpeace, *Vicwood-Thanry: destroying Cameroon’s ancient forests*, April 2002.

³⁹ World Bank Group, *Internal Report*, October 2000, p 14-29.

⁴⁰ Global Witness defines conflict timber as “timber that has been traded at some point in the chain of custody by arms groups... involved in armed conflict, either to perpetuate conflict or take advantage of conflict situations for personal gain,” from: <http://www.globalwitness.org/campaigns/forests/>

⁴¹ Global Witness, *Logging Off: how the Liberian timber industry fuels Liberia’s humanitarian disaster and threatens Sierra Leone*, Global Witness Publishing Inc., September 2002.

personal wealth and support the personal security forces that were essential to his power. The timber transport vessels were also used to traffic arms throughout the region.⁴²

China rapidly increased its log imports from Liberia and, by 2001, was Liberia's largest buyer of wood products. That year, China imported \$42 million worth of logs (58% of the country's total exports),⁴³ most of which came from OTC through Chinese importer Global Star Tradings.⁴⁴ Global Star is part of the Indonesian Djan Djajanti group that was founded by Chinese businessman Burhan Uray and has significant investments in China.⁴⁵ Both OTC and Global Star were directly linked to Global Timber Corporation, based in Penglai, China and with very close ties to the Chinese government. Global Timber was a major processor of Liberian wood exports and has a long-term agreement to import from OTC.⁴⁶ The process is summarized in a report commissioned by USAID: "harvested timber is transported to Liberian ports where it is bartered to Chinese and other trading partners either directly in exchange for weapons and munitions needed by Taylor to carry on his wars, or is sold to raise funds to achieve the same end."⁴⁷

On May 6, 2003, the UN Security Council imposed an embargo on Liberian timber products. China had imported 365,000 m3 of logs from Liberia in 2003 before the sanction, but log imports plunged to 30,000 m3 in the second half of 2003, and China does not appear to have imported Liberian logs during the first half of 2004.⁴⁸

In over four and a half years of civil war in the **Democratic Republic of the Congo (DRC)**, between three and five million people have been killed. Throughout the war, DARA Forest company consistently exported timber from DRC without any certification procedure. DARA Forest is a subsidiary of DARA Great Lakes Industries which is partners with several international firms, including Shanton President Wood Supply Co. Ltd. based in China. Together with a Thai firm, SPWSC brokered a deal to export 30% of DARA Forest wood to the Far East, including China, Japan and Singapore.⁴⁹

United States Involvement in this Trade

The trail of the illegal timber trade does not end in China. At least one-half of all timber imports into China are processed and then exported as finished products.⁵⁰ The United States is the largest market for China's forest product exports and currently there is no process in place to ensure that

⁴² Global Witness website: www.globalwitness.org/campaigns/forests/liberia

⁴³ Global Witness, *Logging Off: how the Liberian timber industry fuels Liberia's humanitarian disaster and threatens Sierra Leone*, Global Witness Publishing Inc., September 2002.

⁴⁴ Global Witness, *Liberia: Back to the Future*, Global Witness Publishing Inc., May 2004.

⁴⁵ United Nations, *UN Panel of Experts on Liberia* report, S/2001/1015.

⁴⁶ Global Witness, *The Usual Suspects: Liberia's weapons and mercenaries in Côte d'Ivoire and Sierra Leone*, Global Witness Publishing Inc., March 2003.

⁴⁷ Baker, Murl et al., *Conflict Timber: dimensions of the problem in Asia and Africa*, vol. 3 *African Cases*, report by ARD, Inc. submitted to USAID, 2004.

⁴⁸ Seneca Creek Associates, LLC and Wood Resources International, LLC, *"Illegal" Logging and Global Wood Markets*, prepared for AF&PA, Nov. 2004.

⁴⁹ *Report of the Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of DR Congo Source*, report submitted to the UN Security Council, April 2001.

⁵⁰ Jintao Xu and A. White, *Understanding the Chinese Forest Market and its Global Implications*, International Forestry Review, 2004, vol. 6(3-4), p ii. (The percentage may actually be much higher: see Forest Trends, *China's Forest Product Exports: overview of trends by segment and destinations* (pre-publication draft).

only legal timber is being exported to the United States. Thus, it is clear that wood products manufactured in China from illegal timber are coming into the United States in great volume.

Illegal African timber processed in China may end up in a range of products sold in the United States, from hardwood flooring to child's toys, but two significant markets are wooden furniture and plywood. Furniture is America's largest import commodity and China is by far our largest supplier.⁵¹ In 2004, more than 40% of China's total wood imports went into the furniture manufacturing industry.⁵² China has also become the world's second largest plywood producer and is the US sixth-largest hardwood plywood supplier.⁵³ Much of China's hardwood plywood is made from imported tropical species such as okoume. Okoume only naturally occurs in Gabon and Congo (Brazzaville), two states with significant problems with illegal logging. Using Port Import Export Research Service data, EIA identified over 1200 shipments from China of plywood labeled as okoume in an 18 month period ending in February 2005.

Recommendations

In closing, Mr. Chairman, EIA recommends congressional action be taken to encourage meaningful progress in addressing China's booming imports of illegal logs and timber. Given that the United States imports substantial wood products produced in China from such illicit timber, Congress should:

- Give priority to enacting G8 commitments to end imports of illegally logged timber and wood products by closing the existing loophole in the Lacey Act. The Lacey Act bans import of wildlife products taken in violation of the laws of a foreign country but needs to be amended to also cover foreign illegally sourced timber and wood products.
- Encourage the Chinese Government to enact comparable measures to stop the import of illegal logs and timber to align itself with the G8 commitment.
- Promote a bilateral agreement with China to coordinate measures to eliminate the flow of illegally logged products into and between the two countries and encourage cooperative enforcement arrangements within such an agreement.
- Designate illegal logging and the associated timber trade as an offence under existing money laundering laws to criminalize the money flows from this illicit trade, thereby empowering enforcement authorities to target key offenders importing and trading in such timber and products. The United States would simply need to add illegal logging to its list of activities covered by its anti-money laundering legislation. Exemplary prosecutions of illegal timber barons would send a significant message to this illicit industry.

Thank you.

⁵¹ Port Import Export Research Service, *Trade Update* email, April 2005.

⁵² *Illegal Logging: calls to give it the chop*, Straits Times (Singapore), May 14, 2005.

⁵³ Dave Rogoway, President of the Engineered Wood Association in a statement to the Forest Products Society annual meeting, June 22, 2003.